

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY FRONTIER GAS, LLC)
FOR APPROVAL OF CONSOLIDATION OF AND)
ADJUSTMENT OF RATES, APPROVAL OF AMR)
EQUIPMENT AND A CERTIFICATE OF) CASE NO.
CONVENIENCE AND NECESSITY FOR) 2011-00443
INSTALLATION OF AMR, PIPELINE REPLACEMENT)
PROGRAM, REVISION OF NON-RECURRING FEES)
AND REVISION OF TARIFFS)

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO
KENTUCKY FRONTIER GAS, LLC

Kentucky Frontier Gas, LLC. ("Frontier"), pursuant to 807 KAR 5:001, is to file with the Commission the original and seven copies of the following information, with a copy to all parties of record. The information requested herein is due on or before October 19, 2012. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Frontier shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though

correct when made, is now incorrect in any material respect. For any request to which Frontier fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to page 2 of Frontier's application, specifically, the fourth full sentence from the top of the page, which reads, "It acquired the assets of Cow Creek Gas Company (formerly Sigma Gas Company) and Dema Gas Company in Case 2010-0076." Frontier's February 22, 2010 Application and the Commission's May 7, 2012 Final Order in Case No. 2010-00076¹ state that Frontier was acquiring the stock, not the assets, of Cow Creek Gas, Inc. ("Cow Creek") and Dema Gas Company, Inc. ("Dema").

a. Confirm that the fourth full sentence on page 2 of the Application is in error in stating that Frontier acquired the assets of Cow Creek and Dema.

b. In a stock purchase, the entity whose stock is acquired remains in existence and the acquirer becomes its shareholder. Confirm that the Cow Creek and Dema acquisitions were treated as stock purchases and that they continue to exist as the utilities providing service to their customers.

¹ Case No. 2020-00076, Application of Kentucky Frontier Gas Company, LLC for Approval of Transfer of Stock of Cow Creek Gas, Inc., Dema Gas Company, Inc., Purchase of Farm Tap and Royalty Gas Customers of Interstate Natural Gas Company and Transfer of a Portion of DLR Enterprises Pipeline to Cow Creek Gas, Inc. (Ky. PSC May 7, 2010).

2. In addition to Cow Creek and Dema, Frontier acquired Auxier Road Gas Company (“Auxier Road”) via a stock purchase, which was approved in Case No. 2009-00442.² In that proceeding, Frontier received approval to acquire 94.29 percent of the stock of Auxier Road and its November 3, 2009 term sheet indicated that it intended to acquire the remainder of the stock at some point in the future. Explain whether Frontier has acquired the other 5.71 percent of the stock of Auxier Road.

3. Refer to the Prefiled Testimony of Robert Oxford (“Oxford Testimony”). In the first two sentences of the response to Question 8, Mr. Oxford states, “We have eliminated several offices by consolidating all operations into the former Auxier Road Gas Company office. We have reduced administrative staff and the related costs of duplicative employees.” Provide the following information regarding the office closings and staff reductions:

a. Identify each affected office, the date the office was eliminated or closed, and what was done with the property.

b. The number of employees in each office that was eliminated or closed during the test year or since the end of the test year and the related personnel costs, including salaries and wages and fringe benefits of the employees.

c. The savings that have been realized for each office that was eliminated or closed during the test year or since the end of the test year, including but not limited to: (1) reduced payroll and fringe benefit costs; (2) reduced rent expense; and (3) reduced utilities costs.

² Case No. 2009-00442, Application of Kentucky Frontier Gas Company, LLC for Approval of Transfer of Auxier Road Corporation Stock (Ky. PSC, Feb. 22, 2010).

d. If the office elimination or closing occurred during the test year or post-test year, identify where that was reflected in Exhibit 5 of the Application, in the section headed "Revenue Requirements."

4. Refer to the Prefiled Testimony of Steve Shute ("Shute Testimony"). At roughly the mid-point of the response to Question 6 Mr. Shute states, "Frontier is proposing to acquire and install an automated metering reading system (AMR) and to replace existing meters with temperature compensating meters (TC)." Regarding the proposed metering programs, provide the following:

a. A detailed explanation for why Frontier has chosen to go with AMR meters rather than Advanced Metering Infrastructure ("AMI") meters; and

b. A detailed explanation of the benefits of using TC meters to provide service to its customers.

5. Refer to the Shute Testimony, specifically, the response to Question 12, where the last item listed among the benefits of installing AMR meters is reduced meter-reading costs. Based on Frontier's anticipated schedule for beginning the installation of AMR meters, explain when a reduction in meter-reading costs will begin to be realized.

6. Refer to the Shute Testimony, specifically, the response to Question 15, in which the total cost of the meter upgrade plus the AMR Program is identified as approximately \$400,000 to be spread over eight years. Provide the following information:

a. An explanation of how Frontier plans to account for the \$1.00 per meter surcharge amounts it receives, including the specific accounting entries;

b. The accounting or journal entries Frontier intends to make to reflect the purchases of the AMR meters and the TC meters;

c. The accounting or journal entries Frontier intends to make to reflect the installation of the AMR meters and the TC meters; and

d. After the AMR eight-year implementation period is complete, explain whether Frontier anticipates having any investment in AMR meters or TC meters that will be reflected in its rate base.

7. Refer to the Shute Testimony, specifically, the response to Question 17, in which the proposed acquisition “adjustment for the recovery of costs associated with the purchase of assets of Belfry Gas, BTU Gas, People’s Gas and East Kentucky Utilities and stock of Auxier Road Gas, Cow Creek Gas, Dema Gas and Mike Little Gas” is discussed.

a. Confirm that the Mike Little Gas acquisition was treated as an asset purchase rather than as a stock purchase.

b. Provide the amounts of the acquisition adjustments for each acquisition and the calculations, documentation, workpapers, etc. supporting how the amounts were derived.

8. Refer to the Shute Testimony, specifically, the response to Question 30, in which he discusses how the Pipeline Replacement Program (PRP) Rider will be allocated to customer classes. Provide all supporting calculations which support the annual per customer fee of \$15, billed at \$1.25 monthly.

9. Refer to the Shute Testimony, at the first paragraph of the response to Question 34, and to Exhibit 5 of the Application. The testimony states that “[f]or its rate

calculations, Frontier used consolidated financials for the fiscal and calendar year ending 12/31/11.” However, the second part of Exhibit 5, which contains two pages with the heading “Revenue Requirements,” reflects expenses for the period identified as “FY Ended 06/30/11” which, according to the second column on page 1 of this portion of the exhibit, is identified as the “Test Year Actual.”

a. Clarify whether Frontier intends for its test year to be the 12 months ended June 30, 2011 or the 12 months ended December 31, 2011.

b. Clarify whether the “Annual Use Mcf” of 285,000 shown on page 1 of the portion of Exhibit 5 headed “Cost of Service by Class” reflects sales volumes for the 12 months ended June 30, 2011, or the 12 months ended December 31, 2011.

c. The calendar year 2011 Mcf sales volumes reported in the annual reports of Frontier, Auxier Road, Cow Creek, Dema and BTU Gas Company, Inc. (“BTU”) filed with the Commission sum to approximately 309,000 Mcf. Explain the discrepancy between this level of sales and the 285,000 Mcf sales volumes shown in the portion of Exhibit 5 headed “Cost of Service by Class.”

10. Refer to the Shute Testimony, specifically, the response to Question 34, which discusses the operation of BTU. The first sentence in the second paragraph states that Frontier began operating BTU in August 2011, while the second sentence states that operating costs for BTU are included “in the consolidated financials for the last half of 2011.”

a. Clarify the number of months, five or six, in which BTU’s operations are reflected in calendar year 2011.

b. Provide the monthly revenues and expenses for BTU for the period of time it was operated by Frontier in calendar year 2011.

c. Provide the monthly revenues and expenses for BTU for the first six months of calendar year 2012.

11. Paragraph 1 of the Application states that Frontier acquired the Blaine municipal gas system on August 1, 2012. Explain whether any adjustments were made to the test year revenues and expenses to reflect the addition of the Blaine gas system.

12. Refer to page 1 of the portion of Exhibit 5 of the Application which has the heading "Revenue Requirements."

a. Provide supporting schedules, workpapers, etc. which show the derivation of each known and measurable adjustment. Include narrative descriptions or explanations which identify the effective dates of each adjustment for which a date is not shown on the page.

b. Several of the proposed expense adjustments include a reference to "BTU" or "Blaine." Explain why, given when Frontier acquired those systems, there are no adjustments to reflect the additional Mcf sales and related revenues resulting from a full 12 months' operations of those systems.

13. Refer to the portion of Exhibit 6 identified as "Nonrecurring Charge Cost Justification." Provide the following:

a. An explanation and support for the hourly wage rates and the time to perform the function used in the calculation of the nonrecurring charges; and

b. An explanation and support for the miscellaneous expenses used in the nonrecurring charges such as excavator costs, mileage used in the transportation

costs, meter shop testing fees and any other costs used in arriving at the proposed nonrecurring charges.

14. Refer to the Exhibit 5 portion headed "Cost of Service by Class." Explain why \$401,400, or 52.49 percent of \$766,063, is proposed to be collected through monthly meter charges, as opposed to 50 percent of \$766,063 as indicated by the note.

15. Provide Frontier's consolidated number of customers and volumes of Mcf sales for each of the years 2009, 2010, and 2011. If such information is not available for a particular system, such as BTU, explain the basis for any estimates of sales.

16. Refer to Exhibit 6, Proposed Tariffs.

a. Given that Frontier has separate farm tap tariffs on file with the Commission, explain why farm tap rates and tariff provisions are included as part of its proposed gas utility tariff.

b. The text at the top of the first page of the proposed tariffs indicates that the tariff will apply to "all Customers served by Kentucky Frontier Gas operations."

1) Given that Frontier serves roughly 630 farm tap customers and recognizing that farm tap systems are not legally defined as utilities, explain whether the reference text should be revised to read "all utility customer served . . ."

2) According to its Application, Frontier intends to have one set of tariffs for all of its utility operations. Based on the nature of its various acquisitions from 2008 to the present time, Frontier is currently operating four different utilities: (1) Frontier, which consists of all of the systems for which it acquired the utility's assets; and (2) Auxier Road; (3) Cow Creek and (4) Dema, the three systems for which Frontier

acquired the corporation's stock. Explain how Frontier envisions conducting business in the future for the latter three utilities.

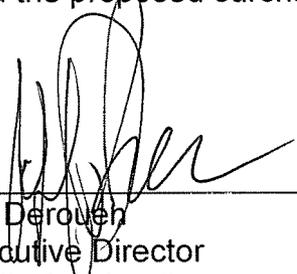
17. Refer to Frontier's proposed tariff, I. RATES AND CHARGES, C. OTHER CHARGES. Explain why Frontier is proposing a monthly PRP rate of \$1.50 in addition to an AMR surcharge of \$1.00 per customer per month.

18. Refer to Frontier's proposed tariff, VII. PIPELINE REPLACEMENT PROGRAM (PRP). Explain why the proposed tariff does not include a provision for reductions for savings in operations and maintenance expenses, a provision included in the PRP tariffs of all jurisdictional gas utilities with existing PRP tariffs.

19. Confirm that Frontier is proposing to charge the PRP and AMR surcharges to all classes of utility customers.

20. Provide the calculation of the proposed \$1.00 per customer monthly AMR surcharge.

21. Confirm whether Frontier intends to include farm tap customers in the PRP and AMR program and whether they will be assessed the proposed surcharges.



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DATED OCT 05 2012

cc: Parties of Record

Case No. 2011-00443

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